RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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Dec. 23, DJIA 985.63; PTI 793; A-D ratio -20.08
Dec. 31, DJIA 1004.65; PTI 820; A-D ratio -18.74

LONG-TERM PICTURE: As I look back over 1976, I would say that the outstanding feature of that year (as far as I was concerned) was the average investor's stubborn, persistent, almost arrogant DISBELIEF IN THE PRIMARY BULL TREND. I must have written, ***"This is a continuing bull market,"*** in every Letter of the past two years. I wrote it until I was tired of hearing it. But fear doesn't die easily. And despite the market's eleven month trading range in 1976, despite the long series of "out-of-gear movements," despite 1976's myriad frustrations, the overriding consideration was that the primary trend was bullish and remained bullish (and by the way, still is bullish today).

I guess the primary concept is too *theoretical* for the average person to believe in. It's like asking someone to believe in a force they cannot see or feel. The primary trend thesis is too simple, too fundamental, and people only trust what they can get their hands on or what they can get locked away in their bank account.

The fact is that the great majority of investors spend about 90% of their time studying the news, trying to dovetail what they hear with today's action on Wall Street. The typical stock-watcher believes that the market moves up and down in a series of news-inspired pops and fizzles, and all the while "flint-eyed Wall Street professionals" work behind the scenes in a sinister plot to separate the little man from his shares (at considerable loss, if possible). Nothing, of course, could be further from the truth.

Wall Street loves it when the public makes money. Wall Street loves the excitement of an enthusiastic and prospering public. In short, Wall Street loves the public. When the public prospers, Wall Street prospers. When the public loses its collective shirts and grows morose, Wall Street languishes and moans about "the good old days."

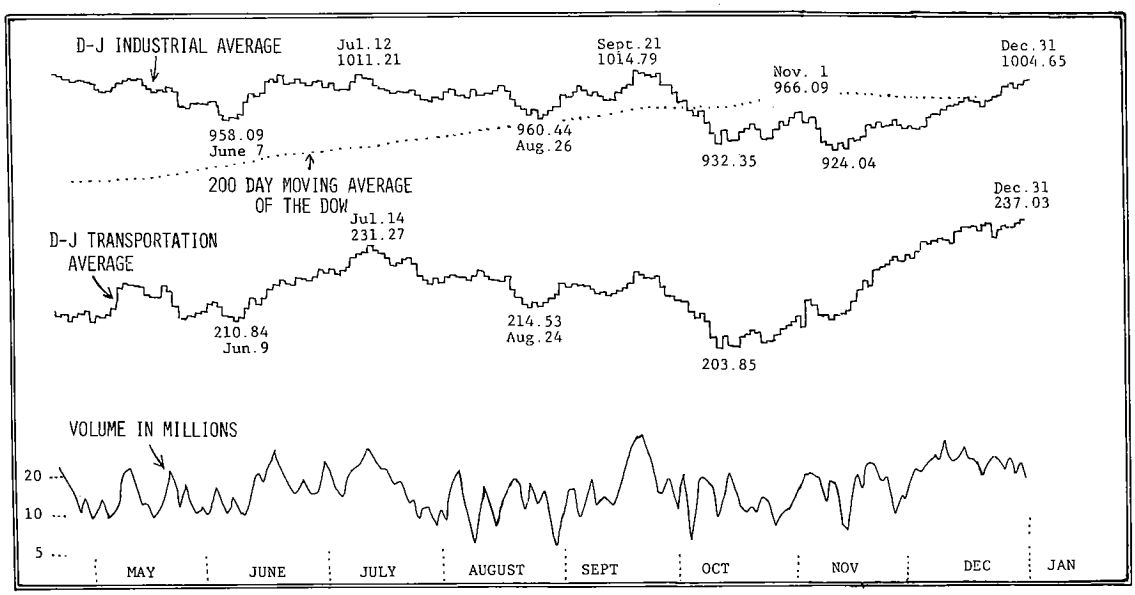
It has been said that "a bull market climbs a wall of worry." I might add that bull markets also thrive on disbelief. In fact, the greater the skepticism regarding the primary bull trend, the greater the potential for a major bull move. Why is this? The answer is simple and logical. If the primary trend is bullish but everyone is pessimistic, we can infer that the **market has not yet expressed its bullish potential.** Or to take the other side of the coin, when everyone is bullish (during a bull market) it is probable that much or all of the bullish market potential has already been expressed. All of which explains why major advances grow out of areas of pessimism and major declines stem from areas of enthusiasm.

Going back over the past few months, a number of interesting occurrences are worth noting. In Letter 680 (Nov.5) under the heading "Too Much Bearishness," I discussed the concept of "urgent selling." I noted that between **September 21, 1976 and October 14** the D-J Industrial Average declined on 14 out of 17 days, or 82.3% of the time. Such a **heavy cluster** of down-days within a primary bull market had only occurred on **six occasions** since 1885! A study of almost a century of market action indicates that 82.3% declining days within a 15 day (or more) period represents absolutely extraordinary bearishness within the framework of a bull market.

The record further shows that we had another period of urgent selling during July 17 to August 8, 1975. Checking all the way back to 1885, it was seen that no primary bull market ever topped out with two periods of back-to-back urgent selling. Consequently, I wrote in Letter 680 that "We aren't anywhere near a major bull market top."

A second measurement of the great disbelief in this bull market is the *short interest* on the NYSE. This is a fairly reliable measure of the amount of real money that is speculating AGAINST THE PRIMARY TREND. I always consider a rising short interest within a primary bull market to represent a potentially bullish situation. When the short interest increases during a period when the market itself is advancing, the situation is even more bullish. It means that the bears (with no encouragement from the market action) are using their money to fight the bull trend.

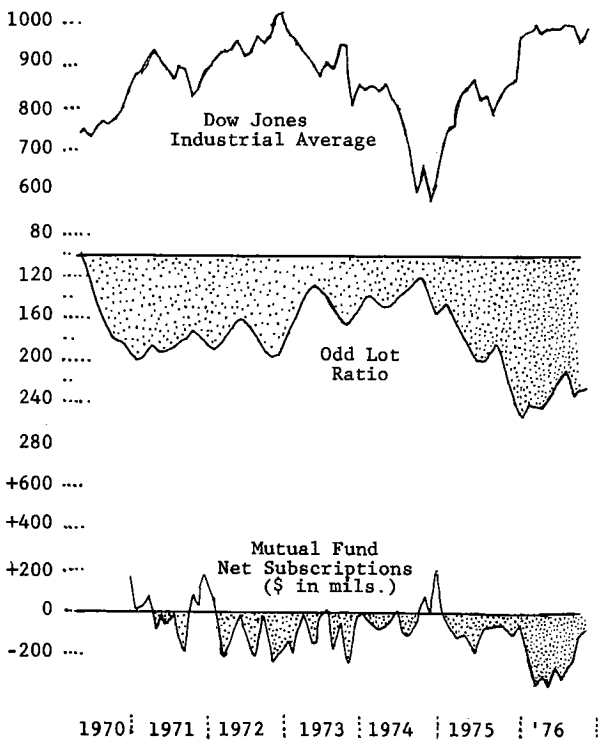
A few weeks ago the Big Board announced that the short interest on the NYSE had jumped almost 10% to 27.5 million, the **highest total in market history.** Now I realize that some of this short



interest could represent year-end hedging and arbitraging, but the fact is that we now have a perfectly enormous number of shorts positioned on the wrong side of the market. To me, the important thing about this phenomenon is not that the shorts will have to buy their stocks back (which they will) but that so much bearishness could have built up within a bull market. That situation is telling us that the bullish potential of this market is far from having been expressed. ***The big move is yet to come.***

Here is another most interesting study, and it concerns the odd lot public and the mutual fund public. The accompanying chart shows that the odd lotters started switching to the sell side of the market during 1970. During 1974 the odd lotters pulled back substantially in their selling, but in greater or lesser amounts the odd lot selling continues to this day. A figure of 200 on the chart indicates 200 odd lot sales for every 100 purchases, and the shaded portion denotes the odd lot selling zone (anything over 100 would signify a ratio of more purchases than sales).

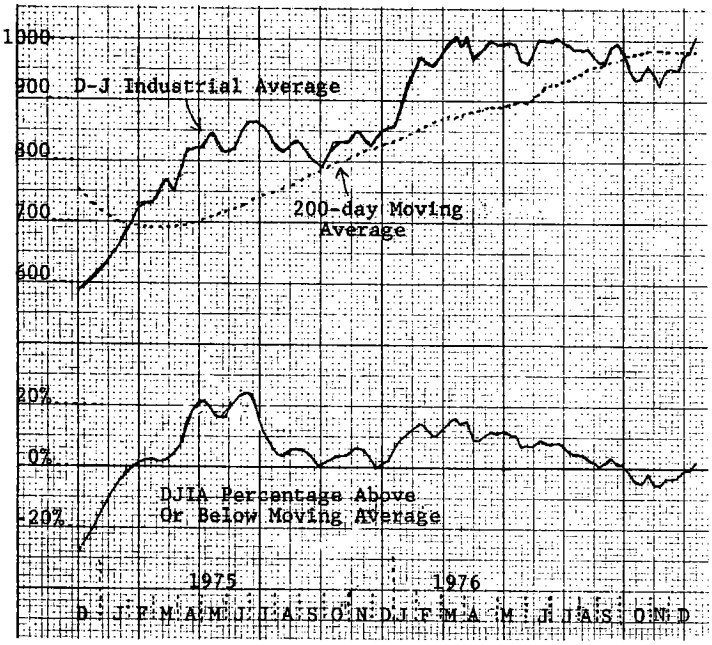
At the bottom of the chart we see the net purchases or sales of mutual funds in dollar amounts. I have omitted bond fund statistics. So what we see here is stock mutual fund transactions (excluding funds and bond funds). In 1971, for the first time, redemptions surpassed purchases in the fund industry. That situation (with a few scattered monthly exceptions) has continued to this day.



So that's the picture we get of the public: they're bailing out of stocks, and they've been trading their funds in for a period of six consecutive years. Interestingly, selling increased substantially during 1975 when the tide of the market turned bullish and when the greatest bargains in a generation were available for the taking.

I would expect that this public skepticism (selling) will continue throughout most of the current second psychological phase of the bull market, probably increasing during the final part of the second phase (at which time, it would be normal to expect a severe secondary correction, a correction which would serve to terminate the second phase of the bull market).

Next, we have the Dow and its 200-day moving average. I discussed this relationship in detail in the last Letter. Anytime the Dow dips below its 200-day MA during a bull market, I conclude



that the market is in a broad "buying range." I say this because the normal position of the Dow during a bull market is to hold above the 200-day MA, and it generally requires a frightening news event, a business contraction or some kind of adverse situation to drive the Dow temporarily below its MA.

The Dow held below its 200-day MA for three months in 1976, a fairly lengthy period of time. On December 22 the Dow finally pushed above the 200-day MA (which is now at 981). When that happened, it meant that seasoned investors (the kind who buy Dow type stocks) were exhibiting a change in sentiment. And ***that change was bullish.*** In pushing the Dow above its average price of the last 6.5 months, they were indicating that they were turning bullish on the Dow Industrials again. When the seasoned (investment) money turns bullish, the rest of the market usually ***follows.***

CONCLUSION: The long-term trend, the primary trend of the market, remains bullish. It is fortified by a rip-roaring bull market in bonds (with accompanying lower money rates), the first primary bull market in bonds since the 1940's. The stock market barometer is telling us that "times are going to get better, a lot better." And since this is written near January 1st, I might as well add, "I'll drink to that!"

INTERMEDIATE TERM: There is a tendency for us market students and analysts to get too cute or too sophisticated where the market is concerned. All during the 1966-74 bear market and more particularly during the 1973-74 crash we heard the "experts" announcing various "over-sold points" and "temporary buy spots." And, of course, all such levels were washed out (with heavy losses) like so many dry leaves in the wind. The bear market just wasn't interested in anything but being Southward bound.

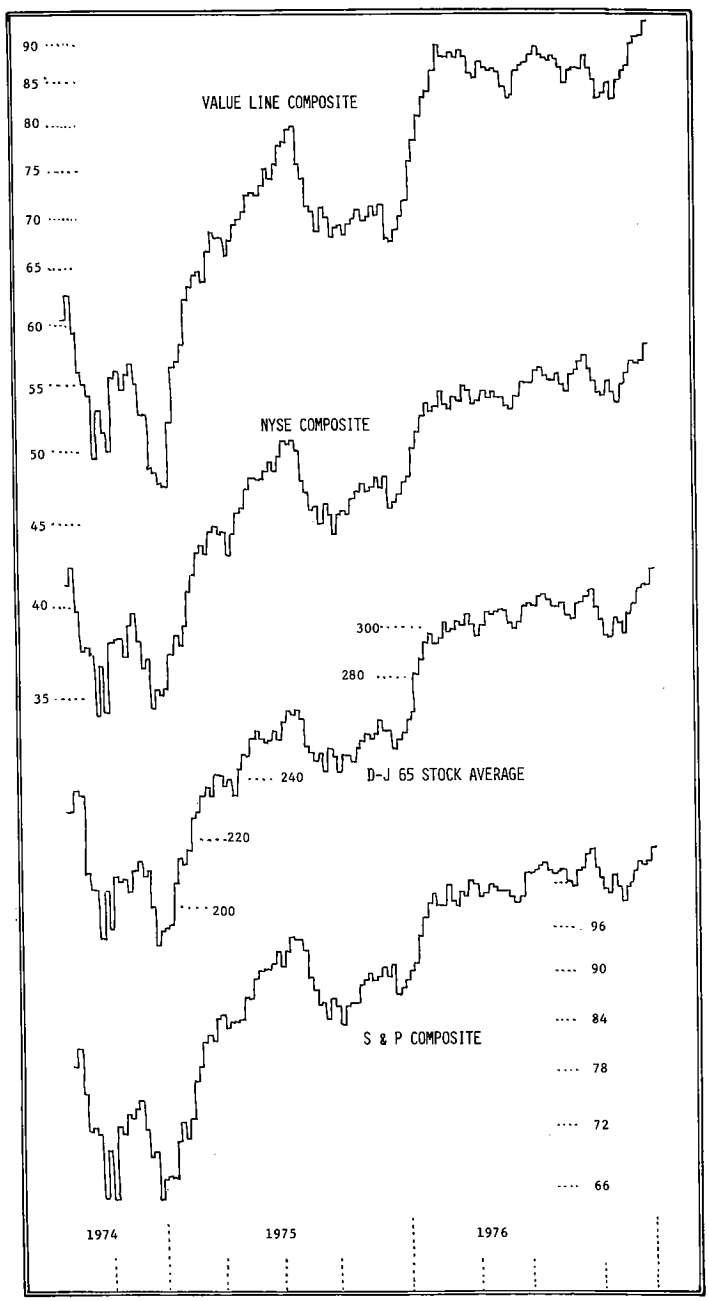
Now, ironically enough, we find the reverse phenomenon in effect. Many well-known analysts have been stating that "it's about over," the "market's overbought," and "1976 is the year of the top" (this latter has now been appropriately changed to "1977 is the year of the top"). Maybe so, maybe they're right; I sure can't tell yet. But I'm certainly not rushing out to write this bull market's obituary.

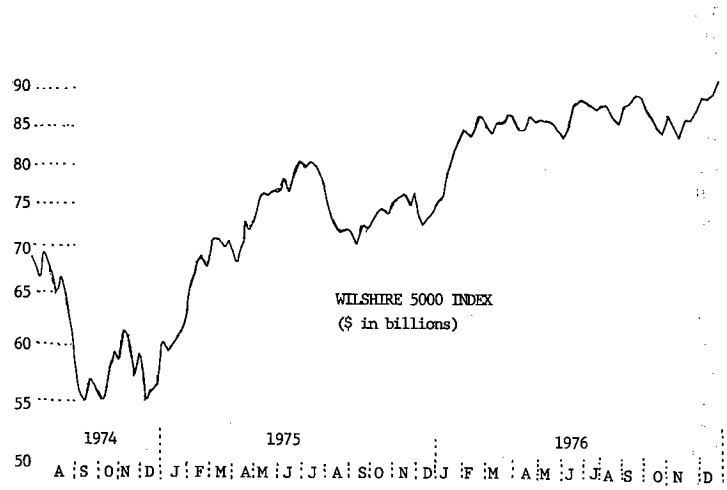
In truth, the market is overbought now by "normal" standards, and I can pick out a number of items here and there that bother me. For instance, since mid-November the A-D Ratio has been up (on a daily basis) about 80% of the time, and that can't continue for too much longer. But the corrective action, following this kind of overbought condition, can be mild in powerful markets, and so far this market is powerful.

The most obvious problem is one that bothers us Dow Theorists, and that is that the *Dow* has not yet confirmed the Transports by rallying above the preceding bull market high of 1014.79. However, I have been stating that in bull markets where one Average (in this case, Transports) hits a primary high, the other **usually** confirms. I think that's what is going to happen here, and I certainly hope it does.

When I wrote the last Letter only the *D-J 65 Composite* of the four Composites I follow had pushed through to a new bull market high. Since then, however, the *unweighted Value Line Composite* has advanced to new highs for the bull market, as has the weighted *NYSE Composite*. If the *Standard & Poor 500 Composite* closes above 107.83 (its September 21 bull high) we will have unanimity on the Composites. On top of that, the *Wilshire 5000* which is an index of the dollar value of all stocks on the NYSE, the AMEX and all actively traded O-T-C shares, pushed to a new bull market high of $916 billion last week (see chart). Go fight that kind of action!

In the last Letter I pointed to the possibility of "another scare shakeout" prior to the next big bull swing, and this will be a very definite possibility if the Dow cannot better 1014.79. If the Dow does better that point, then I believe we will see a major primary bull swing that may well shock even the bulls. At any rate, we should know the verdict of the marketplace before January is over.





ITEMS: On December 28 both the *D-J Utility* and the *D-J 20-Bond* Averages pushed to new highs for the bull market. Veteran subscribers know that I consider a bullish trend in these two indices to be basically constructive for the stock market. Simultaneous new highs in the Utilities and Bonds constitutes a definite plus for Wall Street.

Last week *"Will-Go,"* the index which measures the spread between the Dow **yield** and the High-Grade Bond **yield** (figure in ***Barron's*** each week) rose for the 24th consecutive week. I have never seen a comparable string of advances. Will-Go's remarkably persistent rise is telling us that for 24 successive weeks the stock-bond yield relationship has been **conducive to higher stock prices** (based on the attractiveness of stock yields relative to bond yields). The Will-Go indicator has had a tendency over the years to lead the stock market, and I construe its recent action as bullish for Wall Street during the first half of 1977.

As noted in the last Letter, the London market dropped in 1976 from a high of 420 to a low of 265, a total of 155 points. I stated that the halfway level of the decline would be an important point to watch, since if the price movement can recover half its preceding losses, it's usually a bullish sign. Last week the London Average pushed just over the 342 level or just above the halfway level of the entire 1976 decline. That's bullish action, and again fortifies my belief that London has seen the worst for awhile. Since London is usually a lead indicator for the US market, I would say that last week's performance out of Britain was one more bullish factor for Wall Street.

INVESTMENT PHILOSOPHY: Question: Russell, I've got $100,000 in cash, and that's all I have. What do I do with it? **Answer:** If you're the average guy, you'll probably lose about one-third of it within five years. Not only that, you'll spend an inordinate amount of time and money losing your monev. I'm not an investment prophet, but this is about what I'd do with they money. I still think *bond yields* are high and attractive, by any historical standard. If I didn't have to worry about taxes, I'd put 40% to 50% in income bonds, via a bond fund. I discussed the bond funds in the last Letter.

I'd probably put about 5% (tops 10%) into Krugerrands. I'd do that because the world is piling up debt at a wild rate, and gold is the real base of the paper triangle, the real, honest-to-God money, the intrinsic money. It's good to own some real money, even if that money is not providing a yield.

I might take another 10% of the $100,000 and start learning about a good "collectible" area. To my mind, the best collectible

areas are US stamps, coins and finally paper money. All have good markets, all have catalogued values, all have a history of **value**. If currency as we know it, goes, these three categories will still retain collectible value, still have a wide following, and still be worth something in whatever new currency comes in.

But before buying stamps or coins or paper money (**secondary** but acceptable categories are guns, antiques, objects of art), you must **learn your subject** and find an absolutely honest dealer or agent to buy for you. I cannot overemphasize the importance of the reliable, knowledgeable, honest dealer or agent. On top of that you must read, study, learn your subject—well .

All right, we still have about 40% of the money left. With this I would move into common stocks and perhaps via a closed-end or a no-load fund. Two closed-end NYSE funds which I like are ***Tri-Continental*** and ***Madison***. Both have long histories of dividend payments and distribution of profits and both enjoy good NYSE markets (TY is the largest closed-end fund in existence with assets of over $600 million).

Most investors do not understand the *power of compound interest*, and I keep harping and hammering on this subject. At 6%, money doubles in 12 years, at 7% money doubles in just over 10 years, at 8% money doubles in 9 years, and at 9% money doubles in just over 8 years. When I first started recommending bonds a few years ago, 9% and 10% yields in bonds and bond funds were available all over the place! Many of my readers loaded up on them. All I can say is, hang on to those bonds! You can't beat them for value.

Right now (after a good rise) you can still buy (Federal tax-free) Muni bond funds (no load) at yields of around 5.8%. I think that represents outstanding value, not as good as a few months ago, but still good. For safety, yield, value, liquidity, it's just hard to beat these funds. ***Rowe Price*** offers one as does ***Fidelity, Scudder, Oppenheimer*** and ***Dreyfus***. Rowe Price states that to get started, they will charge no management fee until July, 1977 (thereby boosting their yield to well over 6%).

People often ask me what I do for a living. I answer that "I try to keep people from losing their money." I know a lot of brilliant investors, and I know a lot of just smart ones. These people make good money in the market, sometimes big money. But the sad fact is that the average guy doesn't know what the hell he's doing, and he tends to lose money in a bull market and lose his bloody shirt in a bear market, and you'd better believe it!

This may sound like an arrogant statement, but I honestly think my subscribers have tended to make money over the years. I get letter after letter here stating that they do. I've heard that only the successes show up at the high school reunions, and maybe only the successes write to me. I don't know, but I doubt it, because I also get my share of ding-bat letters too. But the policy I have laid out above should work, and it should militate towards appreciation of capital. It's a policy based on today's realities, specifically (1) a bull market in stocks is in progress, (2) a bull market in bonds is in progress, (3) stock and bond yields are still relatively attractive, and (4) there is a great and ever-widening interest in collectibles, particularly stamps and coins.

Obviously, when the next primary bear market hits, I will alter the policies outlined above. At that point I may suggest 50% in gold, I may suggest....well, why guess, let's wait until we get there.

Real estate can be a good income investment, but it is very specialized and usually time consuming. I grew up in the real estate business in NYC, my father having been in building and management all his life. Real estate is usually not liquid, and it is subject to many variables. But if you are willing to make RE a second profession and learn the business, it can, of course, be rewarding. My main objections to real estate are that you must put a lot of time into it, or you must get someone else to manage and run it. As with so many joint efforts, this may be a case of (1) you start with your money and the other guy's experience, (2) you end up with plenty of experience and the other guy has your money. But I won't knock it, and there are good RE investments, and there are a few good (and honest) RE partners and investors.

I have not mentioned diamonds or precious gems. I have purposely omitted these categories because I found that the average investor just doesn't seem to be able to buy them right. You absolutely must buy precious stones at the right price, and you must know what you are buying as far as condition, quality, cut, etc. But if you have the way and the method of buying good gems at the right price, this has represented a good investment. Few items have appreciated as much as diamonds and quality gems in recent years.

I have not discussed houses, because that's a personal decision. Over the years a house has probably represented the average individual's best investment, mainly because he owned it, lived in it, saw it appreciate in price, saw it's price keep up with inflation, and because **he didn't buy and sell it at the wrong time.** What about buying a house today? If you want it or need it, go buy it. If you're "investing" in it, I say, go very slow. At today's prices and with inflation lessening, I don't see a house as a great investment today.

There's always a temptation to load up with "dead investments," items that don't provide a yield. I classify all collectibles as dead, as I do gold, diamonds, houses, cars, etc. With these you're hoping for price appreciation, and that's all right. But a real investment provides ***yield*** with a certain amount of safety. That ***yield is vital***, it represents MONEY COMING IN. As long as that yield continues, you've got a wealth-producing vehicle. An item which does not provide a yield may be a value but it is also a hope. An item which pays interest or a dividend is a producer. You can live on production, but you can't live on values and hopes.

THE C. V. MYERS EXPLOSION: I am reproducing below a portion of the latest *Myer's Finance & Energy report.* A number of subscribers have written asking me to reply to my friend C.V.'s stentorian accusations. First, I want to say that it is not the "Dow Jones Theory," it is simply the **Dow Theory.** Mr. Jones was an early partner of Charles Dow's, but Jones was a financial man and had little interest in any of Dow's market comments. Thus, the Theory belongs to Dow alone (with credit for later refinements in the Theory going to Robert Rhea and William Hamilton).

> Those who accept a delusion as a fact, and continue to analysize it, and act upon it, and treat it in every respect as if it were true, maneuver themselves into an increasingly hopeless situation from which there is eventually, absolutely no salvation. I don't think anyone will quarrel with this.
>
> Nor can you quarrel with Richard Russel and his brilliant expostulations and interpretations of the Dow Jones theory. But to agree with it, you must agree with something else. You must agree that the D.J. figures of 1976 are based on the same scale of values as the D.J. figures of 1975; of December 1972; yes, and even as of December 1965.
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> All of the analysts and all of the chartists relating to the stock market steadfastly insist on one **ENORMOUS DELUSION** the Dow Jones values are constant. There has been no inflation in the Dow Jones values.
>
> What a different story we should see - what different conclusions Richard Russell would make if he would adjust all of the D.J. quotations from 1965 to the inflation rate month by month - and then show us the charts - and then give us his D.J. theory. I would be very happy to read those writings, because I don't believe anyone is more qualified to interpret those charts. But my God - the premise is wrong! The D.J. 970, 1976, is not a comparable value with D.J. 970, 1973, or 1965.
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> Why must so much wisdom be wasted on a delusion?
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> The fact is this: If we had had no inflation at all during the last 11 years, Mr. Russell's analysis would be absolutely on the button. But is that true? Have we not had inflation? Of 40% to 50%? Does Mr. Russell refuse to look at the king and see that he is naked?

Next, it is a basic tenet (despite what you hear) that the Averages *need no adjusting* for inflation (or famines or war scares or political changes or new tax laws or anything else). The Averages, by their nature are *self-adjusting*. The Averages, Mr. Myers, adjust via the mechanism of the price/earnings ratio. Thus, the market may give a 15 P/E to solid earnings like those of 1954 to '56 and only a 10 P/E to earnings of the quality of late-1973.

But what Mr. Myers and so many other experts don't understand is that the Averages adjust for inflation *plus a thousand other items.* They adjust for OPEC and the price of coffee and Sears' sales trends and the odds on Mr. Carter doing a good job and the chances of GM establishing sales records and a thousand, no a million other factors, 99% of which have never occurred to Mr. Myers or myself.

So C.V. Myers can sit there and denounce the Averages because they aren't adjusted to inflation and because they are selling at the same value they were selling for back in 1966. But my answer, C.V., is that you're like a blind man trying to understand an elephant with one finger running over its left foot. The Averages take in the whole elephant, inflation, old age, tusks, the value of the elephant hide, EVERYTHING THAT CAN POSSIBLY BE KNOWN.

The fact is that INFLATION IS INCLUDED in the price of the Averages today, and the reason that the Dow is now at the same value that it was in 1966 is that a hell of a lot of other adverse items are also factored daily into the Dow. You want to know the adverse items? Well here are just a few obvious ones. We are now ten years nearer the end of the great super-cycle that started in 1932. The Free World is now just this side of bankruptcy. Democracy is fading in the West. The old European leaders, England and France, are now secondary (at best) powers. Many raw materials are now running out, and oil is just one of them. The status of the corporation has weakened considerably while the power has moved to labor and the masses (via the vote and via the newer laws). The tax system in the US and throughout the "Free World" has become a destroyer of capital. Taxes, as an accountant really told me, "are now literally out of control." I could go on and on, but I think this illustrates my point. And it tells us why the Dow is at the same value today as it was ten years ago, despite the inroads of inflation.

HERE'S TO KING KONG AND THE GENERAL: The new King Kong could well be the biggest box office grosser of all time. We read a lot about the "world's most expensive film" and about its producer Dino DeLaurentiis. But very few people know anything about the true author of King Kong, General Merian C. Cooper. He was a subscriber to these reports for many years up until the time of his death in April, 1973.

I guess it was 1968 or '69 that I got a call from a high-voiced, intense-sounding gentleman who called himself General Merian C. Cooper. The General (as I subsequently called him) was extremely interested in gold. As I had been recommending gold shares since 1961 (I believe Dow Theory Letters was the first of the advisory services to recommend gold shares), the General wanted to discuss his ideas on gold. To put it bluntly, he thought gold was going much higher than the then-current $35 per ounce. We both agreed 100%.

In the course of our first conversation, the General told me that he was a Brigadier General in the Air Force, and had been Chief of Staff for Claire Chennault and his famous "Flying Tigers" during World War II. He also mentioned in the course of our conversation that he had co-produced some features with Lowell Thomas and was one of the principals in Cinerama. Also that he had co-produced with John Ford such films as **Flying Down to Rio, Fort Apache, Wagonmasters,** and many others. By this time I was convinced that the General was a nut, simply because no one man could have done all those things.

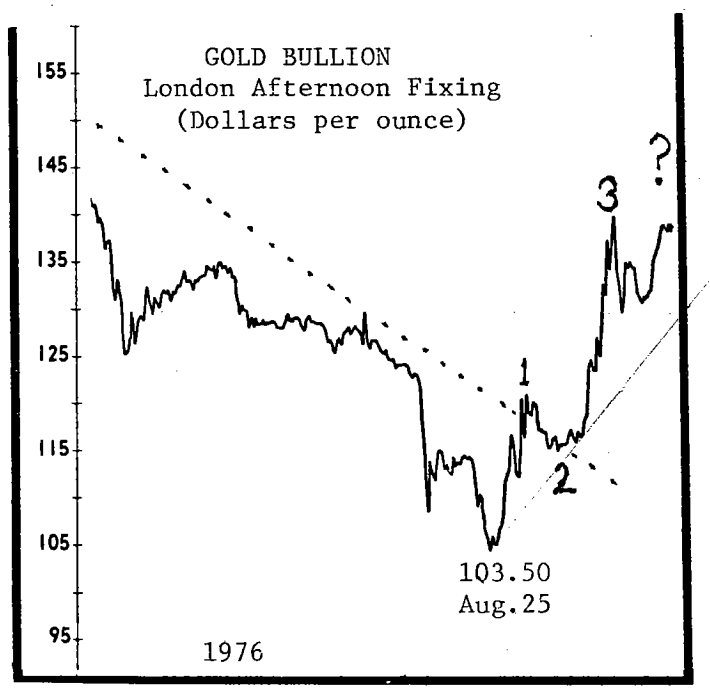
A month later the General called again. This time I questionned him a bit further, only to find out that he had been an Air Force Captain in World War I, a pilot in France, a Colonel in the famed Kosciusko Squadron in Poland, had explored in the Orient and Africa and had made some of the original African films including **Grass** and **Chang** (both pioneer films).

And by the way, he was a founder and director of Pan American Airways and Western Airlines and General Aviation. And as to movies, he had been President of Argosy Pictures during 1946-56. But, confided the General, one of his great thrills had been creating (he was the sole creator), co-authoring and co-producing *King Kong*.

After that the General started on gold again, and he said that if gold wasn't headed for "over 150 sometime in the next decade," his name wasn't Merian C. Cooper. And, of course, by that time I was beginning to wonder if I didn't have a total, raving madman on the phone. The next day I went to the library, got out a copy of "Who's Who," and I gasped. Everything the General said was true—and more, much more.

The fact is that General Cooper was an authentic soldier-of-fortune and genius, a brilliant leader in both war and peace. I saw the re-make of *King Kong* last week. The new picture cost $24 million, Cooper's original cost half a million. I liked the new picture, but it never gripped me the way Cooper's film did. It lacked the daring, the savagery, the mind-blowing originality of the Cooper film. Cooper's own fire was imbedded in the old film, a movie which electrified the world back in 1933. The new film is a tour-de-force but it's second-hand, and it isn't going to electrify anyone.

So here's to you, General. You died here in San Diego in 1973, and I've missed our exciting conversations ever since. If I know you, you're probably up there driving the angels bug-eyed with new adventures and even more exciting stories. Adieu.



GOLD & ELLIOTT: Gold bullion has now moved into a most interesting and critical pattern, as far as followers of the Elliott Wave Principle are concerned. As shown on the chart, gold bullion reversed to the upside (during the third quarter of 1976) when it pushed above the two-year descending trendline. The upthrust from the August, 1976 low of 103.50 has assumed (so far) the pattern of a 1-2-3 wave-form with a London high (afternoon fix) of *138.85* recorded on November 15,1976. This high occurred at the termination of the second up-wave at the point marked 3 on the chart.

Following point 3, gold backed off, then pushed up again, but it has not yet bettered the 138.85 peak of November 15. Under Elliott interpretation, it will now be **critical** to observe whether gold rallies above 138.85 and records a new high which we will call peak 5—or whether gold breaks down from here without showing any ability or inclination to better the 138.85 level at point 3.

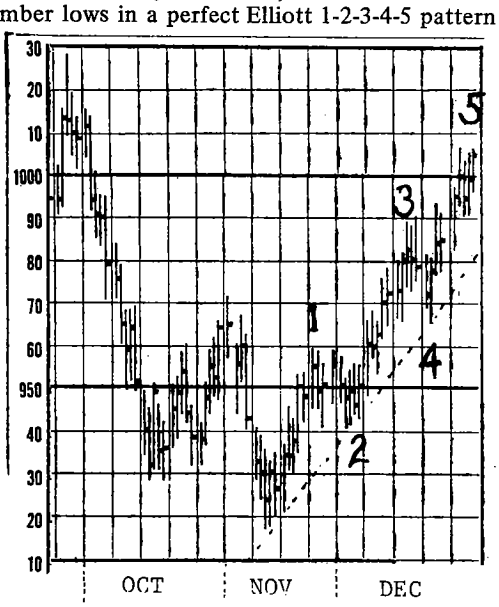
Here is the reason why the forthcoming price action for gold is so critical. If gold hits a new high at a theoretical point 5, then we have a bullish 1-2-3-4-5 pattern, a pattern characteristic of the beginning of a bull market in gold. Remember, Elliott bull markets materialize in 5-leg patterns while Elliott bear market corrections occur in 3-leg patterns. IF gold now breaks down it will leave a typical 1-2-3 pattern which will very strongly suggest that all the upside action since the 103.50 August low was simply a completed 1-2-3 upward correction in a continuing bear market in gold.

Conclusion: if gold moves out above 138.85, I would say that we are definitely at the beginning of a new and very probably long-term bull market in gold. Following theoretical point 5, we would have a correction and a perfect spot to purchase some Kruggerands. HOWEVER' if 138.85 (point 3 on the chart) can not be bettered, I would say that the 1974-76 gold bear market is continuing and in due time the price of bullion will break down below the 103.50 low of 1976!

Of course, this whole concept brings up the idea of "technical insurance" on gold at this point. The insurance plan would be as follows: sell gold here while it is just below point 3 or 138.85. Then buy it back if it hits 140. A price of 140 (just over the 138.85 high) would signal an Elliott bull market in gold, and it would indicate that gold was going into its leg 5 of the first major rise in the new bull market. If you sell gold here and it can't better 138.85, it could well go to new lows under 100. In that case, your sales would be well advised.

LATE NOTES: As of Dec. 31, the A-D ratio had gained 5 full points from its mid-October low without so much as a 1 point intervening correction. This qualifies all the action from the October low as part (or all) of a "buying stampede." These stampedes are the most powerful of all upside market movements since they entail a persistent, sweeping rise by the majority of NYSE issues. Strangely, when any decline of 1 point or more occurs from the peak of a buying stampede, the stampede mysteriously ends. I have never seen this to fail.

The accompanying chart may show us something about what lies immediately ahead. As you can see, the Dow has moved up from the November lows in a perfect Elliott 1-2-3-4-5 pattern with the leg 5 now in progress. The fact that the pattern takes a 5-leg wave form is basically **bullish**. Now in a "normally" strong market, we could expect a 1-2-3 correction coming up, as soon as this leg 5 is completed (and it could be completed now).



But in **very strong markets**, we can get an *extension*, and when that occurs one of the up-legs extends into 5 sub-legs. If that kind of action lies ahead, then the current leg-5 will sub-divide into 5 more up-legs. Normally, the *5 leg is the speculative leg* so if this 5 leg sub-divides, I would expect the market to become very speculative.

Personally, I would not mind it at all if the market corrected here. I think a 1-2-3 correction at this point would **strengthen the basic structure** which has been erected since the October-November lows. I would expect any correction to hold at around 960-980. A reaction here would have an interesting effect on Wall Street sentiment. Here's why: (1) Everybody and his maiden aunt knows about the January "rule," which states that as January goes, so goes the year for the market. But when a rule is this well known, I say ***forget it***. Nevertheless, a sliding January could keep investors on edge most of 1977. (2) Any drop here should bring out cries of "It can't do it, the Dow will never hold above 1000!" Which, of course, is just the kind of sentiment you **need** to move well above 1000.

STOCKS: I still like *Tyco* (which earned a fat 58 cents for the quarter), and I still like *Amerada Hess* (recommended many times). If you haven't bought the stocks you want by this time, I don't know what to tell you.

I've compiled an interesting list of what I term "high class cheapies" and these are all A rated by S&P, have paid uninterrupted dividends for 25 years or more, are selling at low P/E ratios and are worth buying as a package (even if you have to hold them for the third and final phase of this bull market). Some of these I have recommended before, but here I go again. ***A. H. Robins, Thrifty Drug, Baker Industries, Gulf Life Holding, Diebolt, Lucky Stores.*** In a bull market, relative strength revolves from group to group, but sooner or later almost every group and every stock "blows its top."

NOBODY asked me, but is there any chance of easing President Ford out a week or so earlier? Suddenly, he's full of exciting ideas, now that we don't want to hear from him. A Senator's wife asks him to pardon the Vietnam vets. Where is Ford on the issue? I never heard such painty-waist pussyfooting from a full grown man with nothing to lose. Now he's come up with Puerto Rico for our 51st state. I wonder who put him up to this one?

NOTE: I have placed funds in Fidelity Municipal Bond Fund, and I have been using this and other Muni Funds as a repository for corporate funds. As required by SEC rules, I hereby announce that I will be selling some of the Fidelity Muni funds for corporate needs (NOT, I repeat, not because I believe they are a sale). That's all on this item.

THREE'S: Years ago experts were asked to name the three best run organizations in the world. The results were as follows, The German Army, the Catholic Church and Standard Oil of New Jersey. Just a few weeks ago a gentleman from the San Diego County Law Library took a poll and came up with the "three biggest lies in the world." Here they are,, (1) "I'll love you just as much in the morning," (2) "The check is in the mail," (3) "I'm from the Government, and I'm here to help you." This may qualify as Big Lie No. 4: "I'm going to let you in on a little market system that has made me a pile of money over the years."

NEXT MAILING: January 14th.